

IRS MOVES TO CORRECT EITC REJECTIONS FOR DAIRY FARMERS, BUSINESS OWNERS

WASHINGTON – The Internal Revenue Service announced Thursday that it is taking steps to correct instances where the Earned Income Tax Credit (EITC) has been improperly denied to some taxpayers with investment income exceeding \$2,300 for tax year 1998.

The exact number of EITC claims affected is unclear at this point, but the IRS believes it is a relatively small number.

The error involves EITC claims made by some taxpayers using Form 4797, Sales of Business Property. This category includes some dairy farmers who sold culled cows, farming equipment and other business assets.

In the past, dairy farmers and others with gains from selling business assets frequently found themselves with too much investment income to qualify for the EITC. But in November, the IRS announced Revenue Ruling 98-56 (Internal Revenue Bulletin No. 1998-47), which allowed taxpayers to exclude in EITC calculations any investment income involving gains from selling business assets – a switch that allowed more business owners and farmers to qualify for EITC.

Following the late change, IRS computers could not be reprogrammed in time to recognize the EITC revision for 1998. In addition, the directions for Form 4797 had already been printed and did not reflect the changes. The combination of factors led to some taxpayers being erroneously denied EITC claims.

If taxpayers who used Form 4797 have received a notice that their investment income disqualified them from EITC, they should notify the contact person or office listed on the notice to correct the problem. Taxpayers can also reach the IRS toll-free help line at 1-800-829-1040 and say they are calling about disqualified income on Form 4797 for EITC purposes.

The IRS will expedite processing for people who received erroneous notices.

The IRS is also moving on several fronts to correct the problem:

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IRS Service Centers have taken corrective steps to prevent improper EITC denials involving Form 4797. IRS employees who process returns have been alerted to manually compute taxpayers' investment income to ensure these EITC claims will not be rejected.

Taxpayers and tax practitioners are being alerted to EITC problems.

Additional details regarding EITC and investment income will be posted on the IRS Internet site at www.irs.ustreas.gov. The information will be available on the "Tax Professional's Corner" under the "News for the Tax Professional" section. The Tax Professional's Corner can be reached via the "Tax Info for Business" section on the IRS home page.

The IRS will review how to make this area clearer in several documents, including Publication 596, Earned Income Credit, and the EITC Worksheet.

In addition, the IRS reminds taxpayers with investment income they may still be eligible for EITC for two previous years. Taxpayers who were otherwise eligible to claim the EITC on 1996 or 1997 returns -- but had too much investment income on the Form 4797 calculation due to the sale of business assets -- may still claim a refund.

These taxpayers must file an amended return on Form 1040X for each of the years that the new calculation lowers their investment income below the limit for that year. The limit is \$2,200 for 1996 and \$2,250 for 1997. Although these gains are now excluded from EITC calculations, the gains are still included in the taxpayer's total income figure.

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